

Cover Page

CARRINGTON CAPITAL MANAGEMENT, LLC

Part 2A of Form ADV: Firm Brochure

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This brochure provides information about the qualifications and business practices of Carrington Capital Management, LLC (“Carrington”). If you have any questions about the contents of this brochure, please contact Kristina Couch, Chief Compliance Officer at (203) 661-6186 or kristina.couch@carringtoncap.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Registration with the SEC does not imply a certain level of skill or training.

Additional information about Carrington is also available on the SEC’s website at www.adviserinfo.sec.gov.

Item 2. Material Changes

This update reflects certain changes to the management team of Carrington. Mr. Stephen M. Kirch and Mr. Jack L. Macdowell are no longer employed with the firm. Mr. William A. King has been appointed President of Carrington and Mr. Peter L. Salce has been appointed Vice President of Carrington.

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Item 4. Advisory Business

Carrington Capital Management, LLC (“Carrington”), a Delaware limited liability company, is an alternative asset management firm focused on investing in the U.S. real estate, mortgage and fixed income markets. Carrington’s primary investor base consists of institutional investors. Carrington commenced operations in September, 2003. Carrington’s principal owner is Carrington Holding Company, LLC, whose majority owner and managing member is Bruce M. Rose.

Carrington provides investment advisory services to privately offered pooled investment vehicles (“Funds”), separately managed accounts (“Separately Managed Accounts”) and financial institutions (“Financial Institutions”), together referred to herein as “Clients.” Carrington focuses on asset categories that utilize Carrington’s experience in the U.S. residential mortgage and real estate market, operating affiliate resources, relationships with industry counterparties and partners and substantial analytical and risk management capabilities. Carrington sources mortgage assets from select relationships with banks, broker dealers, and other financial institutions (including affiliated origination sources) and analyzes and values the mortgage and real estate assets using various quantitative econometric variables and qualitative data obtained through Carrington’s operating affiliates. Typically, Carrington performs several functions related to risk management and due diligence prior to the settlement of trades, in particular, Carrington negotiates and effects trades for mortgage and real estate assets and performs asset level due diligence with regard to such assets. In certain cases, Carrington creates a vehicle or securitization trust that will issue a security representing an interest in such mortgage or real estate assets. Carrington expects to utilize its affiliate mortgage loan servicing, property management, mortgage loan origination, consumer counseling, debt collection, real estate brokerage and foreclosure trustee affiliates in an effort to enhance and maximize Client portfolio value. Carrington has full discretion with respect to investment decisions made on behalf of the Funds. Investment advice is provided directly to the Funds according to each Fund’s particular investment objectives and not individually to the Fund’s investors. Carrington provides advisory services on a non-discretionary basis to Separately Managed Accounts and Financial Institutions according to investment objectives specified in the pertinent investment management and loan servicing agreements, if applicable. Clients may impose investment restrictions as to geographic diversification, expected duration, pricing, and other investment criteria.

Carrington also provides certain limited analytical services to Financial Institutions regarding the U.S. residential mortgage and real estate market. In certain instances, these services may include analysis of the Financial Institution’s residential mortgage and real estate asset portfolios.

As of December 31, 2011, Carrington managed \$363,473,572 of Fund assets that were originally managed on a discretionary basis and which are currently subject to liquidation and no longer available for discretionary reinvestment and \$287,135,763 of Separately Managed Account assets on a non-discretionary basis.

Item 5. Fees and Compensation

Compensation received by Carrington for its investment advisory services is comprised of fees based on a percentage of assets under management and performance-based fees. Carrington also receives certain non-asset based fees for analytical services provided to Financial Institutions regarding the U.S. residential mortgage and real estate market.

Funds

Carrington generally earns a management fee in an annual amount ranging from 0.50% to 2.00% of invested capital, deducted monthly in arrears from the Fund account. Generally, Carrington is also entitled to either an annual or “back-end” performance-based fee, typically 20% of income generated in the Fund account in excess of the related annualized return hurdle (typically ranging between 0.0% and 7.0%). The “back-end” performance-based fee structure requires Carrington to return 100% of the Client’s original capital investment plus a related return hurdle prior to any allocation of a performance-based fee to Carrington. Generally, the “back-end” performance-based fee structure is used in closed end Funds whose assets are difficult to value and the fee is generally based upon a percentage of total net cash collections in excess of the predetermined performance threshold. Fees are **not** negotiable with respect to investments in an existing Fund.

Separately Managed Accounts

Carrington generally earns a management fee or a mortgage administration fee, as the case may be, in an annual amount ranging from 0.25% to 2.00% of invested capital, deducted monthly in arrears from the Separately Managed Account. Carrington also generally is entitled to a performance-based fee. For certain Separately Managed Accounts this performance fee may be earned and payable upon the client receiving its initial investment plus a return hurdle (typically ranging between 5.0% and 12.0%), and then typically 15%-25% of net cash collections generated in the Separately Managed Account in excess of the related annualized return hurdle,. Other Separately Managed Accounts earn performance-based incentive fees that are paid monthly subject to achieving certain annualized return thresholds (generally between 7% and 10%). These monthly performance-based incentive fees generally range between 4% and 16% of that month’s total income for such Separately Managed Account. In certain Separately Managed Accounts there is no management fee; however, a mortgage servicing fee paid to Carrington’s mortgage servicing affiliate is allocated between the servicer and Carrington based on services provided. Fees are negotiable with respect to investments in a Separately Managed Account. In certain Separately Managed Accounts there is no management fee; however, a mortgage servicing fee paid to Carrington’s mortgage servicing affiliate is allocated between the servicer and Carrington based on services provided.

Analytical Services

Carrington generally earns a flat fee for analytical services provided to Financial Institutions. In some instances, Carrington may be retained by a Financial Institution and paid an upfront retainer fee that is offset against future payment obligations. The flat fee for analytical services

is generally based upon the scope of the analytical assignment and the size and complexity of the Financial Institution's mortgage and real estate assets.

Other Types of Fees or Expenses

Clients also may bear other fees and expenses charged to Client accounts. These fees and expenses typically include, but are not limited to, (a) operating expenses, including investment and transaction-related expenses (*e.g.*, brokerage commissions, custodial fees, bank service fees, due diligence expenses and expenses related to a proposed investment that was not consummated), legal, accounting, insurance and administrative expenses; professional fees relating to investments (including expenses of consultants and experts); and entity-level taxes (including any accrued incremental tax liabilities relating to the ownership of mortgage loans, mortgaged properties and real estate); and (b) each Client's allocable share of the asset management services provided by Carrington or its affiliates with respect to the Client's investments, including in connection with the sourcing and selecting of assets for the Client to acquire and the valuation, diligence and servicing of assets acquired by the Client portfolio.

Generally, with respect to engagements for analytical services, Carrington will charge back any costs or expenses related to travel, third party valuation services, or other expenses not covered by the negotiated engagement documents, if applicable.

In addition, Carrington will obtain services from various affiliated service providers at rates it believes to be at or below current market levels. Additional disclosure of these services, the related fees and potential conflicts can be found in Items 10 and 11.

Item 6. Performance-Based Fees and Side-by-Side Management

Carrington is generally entitled to an annual performance-based fee from Clients, subject to, in certain cases, total return of invested capital and generation of income in the Client account in excess of the pertinent return hurdle.

Item 7. Types of Clients.

Carrington generally provides investment advice to Funds, Separately Managed Accounts and Financial Institutions. Investment advice is provided directly to the Funds and not individually to the Fund investors. The Fund investors generally consist of institutional investors, endowments, family offices, fund of hedge funds, and high net worth individuals. The minimum fund investment is \$1,000,000 provided however, the general partner, in its sole discretion, may accept lesser amounts.

Separately Managed Account holders include institutional investors and private equity firms. The minimum committed investment is \$2,000,000, provided however, that the general partner, in its sole discretion, may accept lesser amounts.

Additionally, Carrington provides certain limited analytical services to Financial Institutions regarding the U.S. residential mortgage and real estate market and in some instances, these services may include analysis of the Financial Institution's residential mortgage and real estate asset portfolios.

Item 8. Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

Carrington's investment objective is to seek to achieve long-term capital appreciation, current income and cash collections by identifying undervalued assets primarily resulting from the dislocation in the U.S. residential housing market. The investment strategy will focus on asset categories that utilize Carrington's experience in the U.S. residential mortgage real estate market, relationships with industry counterparties and partners, operating affiliate resources, and substantial analytical and risk management capabilities. Carrington expects to utilize its internal mortgage loan servicing, property management, mortgage loan origination, consumer counseling, debt collection, real estate brokerage and foreclosure trustee affiliates in an effort to enhance and maximize value.

Carrington seeks to deliver value to clients by utilizing its extensive operating platform to optimize investment strategies focused on a combination of "control-based" and "hard real estate asset" strategies. Assets will be performing, sub-performing, re-performing and non-performing mortgage loans or properties acquired in pools or securities representing interests in such mortgage loans.

Carrington's strategy utilizes its experience in assessing and evaluating property value, as well as its established infrastructure in advising on the management and disposition of delinquent and defaulted mortgage loans, and in many instances, Carrington intends to utilize its operating affiliates focused on mortgage loan servicing, property management, loan origination, consumer counseling, debt collection and real estate brokerage in an effort to maximize value and execute on a combination of "control-based" and "hard real estate asset" strategies.

With respect to certain investment strategies, Carrington and its affiliates perform various functions prior to asset acquisition:

- Sourcing mortgage loans and real estate properties from select relationships with banks, broker dealers, and other financial institutions;
- Analyzing mortgage loans and real estate properties and deriving a top level view as to the appropriateness of the assets within the context of the overall portfolio construction;
- Valuing mortgage loans using a variety of quantitative econometric variables, home price forecasts, probability weighted resolution and disposition paths as well as qualitative elements derived from Carrington's operating affiliates;
- Developing a bid price and communicating that price to the sellers of the assets;
- Negotiating and executing the trade with the sellers of the assets;

- Performing loan level due diligence, including but not limited to, compliance reviews, title searches, property site visits and property value reconciliations;
- Negotiating with the sellers with respect to mortgage loans that are declined for purchase due to document deficiencies, compliance breach, or irreconcilable valuations and/or re-pricing of the mortgage loans with such issues; and
- If applicable, creating the vehicle, or securitization trust, that will issue the securities representing an interest in the final asset population to be acquired.

With respect to certain investment strategies, Carrington and its affiliates, on a Clients' behalf, may perform various functions after the acquisition of assets, including but not limited to:

- Working with the seller and interim mortgage loan servicer to effect the transfer of mortgage loans to the Client accounts and the related servicing to Carrington's selected servicer (generally, its affiliate, Carrington Mortgage Services, LLC);
- Pursuing a homeowner outreach initiative to inform borrowers of the servicing transfer and any programs that are available to incentivize the borrower to continue, or begin, making timely debt service payments, or pursue an optimal disposition path;
- Using the information from the mortgage loan servicer related to the initial borrower outreach initiative, identifying and executing optimal resolution and disposition strategies; and
- Tracking and performing in-depth surveillance on each asset on a loan level basis.

Material Risks of Carrington's Strategies

The following is a summary of some of the material risks associated with the strategies expected to account for a significant portion of the Client's investments. This summary does not attempt to describe all of the risks associated with an investment in a Client's account. Although no summary can fully describe all of the risks associated with such an investment, the confidential private placement memorandum or confidential offering memorandum for a Fund contains a more complete description of the risks associated with an investment in the Fund.

Risks inherent in the strategies include the risk of further deterioration in the US housing and real estate markets precipitating a decline in home values. Additionally, government inquiries, policy initiatives that influence loan modification strategies, foreclosure moratoriums or other aspects of the housing market may also pose risks to the various investment strategies from either extension risk or the increased risk of loss, or both.

Other risks associated with the investment strategies include fluctuations in interest rates, the use of leverage, counterparty credit risk with respect to hedges, illiquid nature of some assets, concentration risk, competition from other investors and mortgage loan servicing transfer risk.

Liquidity

Investments may include loans or other assets for which no (or only a limited) liquid market exists or that are subject to legal or other restrictions on transfer. The market prices, if any, for such assets tend to be volatile, and may fluctuate due to a variety of factors that are inherently difficult to predict, including, but not limited to, changes in interest rates, prevailing credit spreads, general economic conditions, U.S. housing conditions, financial market conditions, domestic or international economic or political events, developments or trends in any particular industry, and the financing condition of the obligors on each investment. The sale of illiquid assets often requires more time.

Concentration

Carrington targets distressed mortgage opportunities. Structural, economic and regulatory changes could adversely affect the prospects for such sector, as could certain general market conditions. The concentrated focus of the portfolios may cause performance to be more volatile and result in its incurring greater losses during unprofitable periods as compared to a more diversified approach.

While Carrington regularly monitors the concentration assets in each Client's portfolio, concentration in any one region may arise from time to time. For example, at any given time, certain geographic areas may provide more attractive investment opportunities than others and, as a result, each Client's investment portfolio may become concentrated in those regions. The risk of loss on an investment will increase to the extent that such portfolio becomes excessively concentrated. To the extent there is a downturn affecting a region in which a portfolio is concentrated, this could increase the risk of defaults, reduce the amount of payments received on its investments and, consequently, could have an adverse impact on the ability to make distributions. Additionally, in the event that the portfolio becomes concentrated in one region, an environmental catastrophe in such region may have a material adverse affect on such portfolio.

Default Risk

A portfolio's income may be derived largely from repayments of principal received in respect of loans. A wide range of factors may adversely affect an obligor's ability to make repayments, including, but not limited to: adverse changes in the financial condition of such obligor or the regions in which it operates; the obligor's exposure to counterparty risk; systemic risk in the financial system; changes in law or taxation; changes in governmental regulations or other policies; natural disasters; terrorism; social unrest; civil disturbances; or general economic conditions. Default rates tend to accelerate during economic downturns.

Any defaults will have a negative impact on the value of investments held and may reduce the return in certain circumstances. While some amount of annual defaults and loss of principal balance on the mortgage loans is expected to occur in each portfolio, such defaults, losses, decline in value or failure to meet certain cash flow targets may breach certain covenants,

triggering credit enhancement requirements or accelerated repayment provisions set forth in the operative securitization transaction or financing documents, if applicable, and, if not cured within the relevant grace periods, diverting cash flow away from the client's investment in favor of more senior securities in the securitization or financing capital structure, if applicable.

Security Risk

A substantial portion of each Client's investments are expected to be in residential mortgages or real estate, or securities collateralized by residential mortgage loans and real estate. Depending on the jurisdiction in which such security interests are created, enforcement of such securities can be a complicated and difficult process. For example, enforcement of security interests in certain jurisdictions can require a court order and a sale of the secured property through public bidding or auction. For example, some courts may delay, upon the obligor's application, the enforcement of a security if the obligor can show that it has a valid reason for requesting such delay, such as showing that the default was caused by temporary hardships. For example, some jurisdictions grant courts the power to declare security interest arrangements to be void if they deem the security interest to be excessive.

Item 9. Disciplinary Information

Carrington has no legal or disciplinary events to report that it believes would be material to a client's or prospective client's evaluation of Carrington's advisory business or the integrity of its management.

In October 2006, Carrington entered into a stipulation and agreement with the State of Connecticut Banking Commission and agreed to pay \$3,500, in administrative penalties, \$1,000 of which was an administrative penalty for failing to make a timely filing of the investment advisory notice with the State of Connecticut and \$2,500 of which was an administrative penalty for failing to file notices of sale on Form D with the State of Connecticut.

While not a disciplinary action, Mr. King, the President of Carrington, along with a number of financial institutions and underwriters (including one of Mr. King's former employers) and certain of their respective officers, has been named as a defendant in certain civil actions relating to the creation and issuance of mortgage-backed securities. These civil actions have been filed by certain purchasers of these mortgage-backed securities and the Federal Housing Finance Agency as conservator for FNMA and FHLMC in certain federal and state courts alleging violations of federal and state securities laws related to such mortgage-backed securities. Additional details may be obtained through the FINRA Brokercheck system at www.finra.org/brokercheck.

Mr. King intends to vigorously defend against these actions.

Item 10. Other Financial Industry Activities and Company Affiliations

Affiliated Broker-Dealer

Carrington is affiliated with **Carrington Investment Services, LLC (“CIS”)**, a registered limited purpose broker-dealer. CIS’s business activities are limited to the private placement of securities, including but not limited to the private placement of interests in the Funds. CIS does not effect transactions in portfolio securities for any Carrington Client.

The following Carrington employees are registered as securities principals with CIS:

- Bruce M. Rose (Chief Executive Officer and Managing Member, Carrington Capital Management, LLC)
- Darren A. Fulco (Chief Strategy Officer, Carrington Capital Management, LLC)
- Andrew M. Taffet (Portfolio Manager, Carrington Capital Management, LLC)
- Kristina S. Couch (Chief Compliance Officer, Carrington Capital Management, LLC)

The following Carrington employees are registered as Financial and Operations Principal with CIS:

- Peter L. Salce (Vice President, Carrington Capital Management, LLC)

The following Carrington employees are registered representatives with CIS:

- William A. King (President, Carrington Capital Management, LLC)
- Scott J. Siegler (General Counsel, Carrington Capital Management, LLC)

Affiliated Real Estate Broker

Carrington is also affiliated with Atlantic & Pacific Real Estate, LLC (“APRE”), a real estate broker. APRE is expected to act as a real estate broker in connection with certain property dispositions from Client portfolios and is expected to receive fees in respect of these services.

Affiliated Insurance Agency

Carrington is also affiliated with Telsi Insurance Agency, LLC, a national life, property and casualty insurance agency which provides insurance placement services to certain mortgage holders serviced by Carrington Mortgage Services, LLC.

Affiliated Service Providers

In providing investment advisory services to its Clients, Carrington utilizes the expertise of its mortgage loan servicing, property management, mortgage loan origination, consumer counseling, debt collection and foreclosure trustee affiliates in an effort to enhance and maximize

value and execute on a combination of “control-based” and “hard real estate asset” strategies. Such affiliates are expected to receive fees in respect of their services. Specifically, Carrington engages the services of the following affiliates:

Carrington Mortgage Services, LLC (“CMS”) acts as the servicer of loans in Client portfolios. CMS functions as a “high touch” residential mortgage loan servicer/special servicer specializing in servicing distressed residential real estate assets. CMS, in conjunction with Carrington, develops resolution and disposition strategies believed to maximize value for the pertinent Client accounts. CMS, at the direction of Carrington, may enlist the assistance of other Carrington affiliates and third-party service providers in order to utilize specialized services in certain aspects of the recovery process. CMS also has a mortgage lending division. Some services provided by CMS’s mortgage lending unit, or other mortgage lending vendors, may be paid by the applicable Client at what Carrington believes to be at or below market rates.

Carrington Property Services, LLC (“CPS”) serves as property manager and assists in the due diligence process in connection with the acquisition of certain Client assets. CPS provides property management services for properties owned by financial institutions that have been forced to acquire such properties following defaults on mortgage loans. CPS, as property manager, may assist in the due diligence process by providing property value reconciliations through site visits of the properties collateralizing the mortgage loans a Client intends to acquire. Services provided to Clients by CPS will be paid by the applicable Client at what Carrington believes to be at or below market rates.

Compass Resolution Services, LLC (“CRS”) serves as a deficiency manager and may provide services related to collecting past due and delinquent payments on loans held in Client portfolios. CRS also assists Carrington’s due diligence teams to investigate any suspected broker and/or appraisal fraud. Services provided by CRS may be paid by the applicable Client at or below market rates on a success-based fee schedule.

White Van Real Estate Services LP (“White Van”) serves as a property preservation manager and may provide a full range of property preservation, maintenance and repair services to lenders, servicers and asset managers. Services provided to Clients by White Van will be paid by the applicable Client at what Carrington believes to be at or below market rates.

(a) Conflicts of Interest

As stated above, Carrington uses the services of several affiliated companies to execute its strategy. The following are the primary inherent or potential conflicts that investors should consider.

Carrington’s use of affiliated service providers and the quality and pricing of such services may create a material conflict of interest with Clients. Although any fees incurred and paid to such affiliates are expected to be competitive with the market on a relative basis, on a going-forward basis, there may be an incentive for Carrington to employ such affiliates rather than third parties and utilize strategies that generate or increase fees to such affiliates.

In addition, certain investors in Funds may have different yield and payment considerations and certain structures may be used that would provide different payment priorities to different

Clients. Actions taken by Carrington in an effort to benefit the Fund overall may be adverse to the interests of a particular investor or a particular class of a structured vehicle but will generally be executed for the overall benefit of the trust or vehicle, not necessarily taking an individual segmented interest as a priority. Investors should consider these priorities in advance of making any investment.

Carrington hopes to minimize these inherent or potential conflicts of interest. Where available, Carrington is inclined to utilize affiliates as a means of insuring the quality of execution and delivery of services to its Clients as opposed to third parties over which quality control measures can be challenged. In addition, Carrington negotiates fee arrangements with affiliates at or below what it believes to be current market rates. Carrington will regularly review the market for the services provided by its affiliates to ensure, in its good faith judgment, that it is receiving services at or better than what it believes to be the current market and paying at or below what it believes to be current market rates for these services. Carrington has the option to use third party vendors for any services it deems appropriate. As Carrington may collect an incentive fee based on the Client's performance, Carrington's interests should be aligned with the Client's interest as a whole and will be incentivized to maximize proceeds to the Fund overall.

Item 11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

As a fiduciary, Carrington owes an undivided duty of loyalty to its Clients and thus demands the highest standards of ethical conduct and care by all of its employees. It is Carrington's policy that all employees conduct themselves so as to avoid, to the extent possible, not only actual conflicts of interest with Clients but any conduct that could give rise to the appearance of a conflict of interest that might compromise the trust placed in Carrington by its Clients.

Carrington has adopted a Code of Ethics (the "Code") that sets forth standards of ethical and business conduct expected of Carrington's personnel and addresses conflicts that may arise from personal trading by Carrington personnel. The Code, among other things, requires compliance with the federal securities laws, reflects Carrington's fiduciary responsibilities and those of its advisory personnel, prohibits certain personal securities transactions, requires Carrington personnel to periodically report and/or preclear certain personal securities transactions and addresses prevention of the misuse of material nonpublic information.

Carrington requires that all employees observe the applicable standards of care set forth in the Code and not seek to evade the provisions of the Code or the "spirit" of its requirements in any way, including indirect acts by family members or other associates. All recipients of the Code must read it carefully and retain a copy in their personal files for future reference.

The Code will be provided to any Client or Fund investor or prospective Client or Fund investor upon request.

Item 12. Brokerage Practices

Best Execution

As described earlier in this brochure, Carrington intends to acquire assets for Client portfolios primarily through the purchase of mortgage loan and real estate assets and may use such assets to structure a security collateralized by the loan pool, using REMIC trust or limited partnership or other structures. Non-performing loans may also be held as part of a Client portfolio. Hence, Carrington does not expect to utilize the services of broker-dealers to execute Client transactions.

In those limited instances (if any) in which it does utilize a broker-dealer, Carrington will use its reasonable efforts to obtain best price and execution. In selecting a broker-dealer, Carrington will take into account the relevant factors, including, but not limited to, price, broker commissions and the broker-dealer's facilities, reliability and financial responsibility.

Allocation of Investment Opportunities

Carrington seeks to allocate investment opportunities in a manner that it believes is in the best interests of all of its Clients. Although such allocations may be *pro rata* as to the participating Clients, they will not necessarily be so, where Carrington's allocation policies dictate a different result. For example, Carrington in allocating such investment opportunities will consider, without limitation, the proposed investment's size, liquidity and time horizon; each Client's diversification guidelines and differing objectives; the likelihood of current income; the anticipated duration of the investment; and available capital. Allocations may also differ for tax, regulatory or other reasons as deemed appropriate by Carrington. Subject to the foregoing, Carrington expects to allocate investments among Clients on a *pro rata* basis based on available capital. There can be no assurance that a particular investment opportunity will be allocated in a particular manner. Where conflicts arise in the allocation of investment opportunities, Carrington seeks to resolve such conflicts fairly.

Aggregation of Trades

Carrington's investments do not typically lend themselves to aggregation as Carrington trades unique pools of mortgage and real estate assets; however, in certain circumstances, if multiple clients have similar investment profiles, Carrington may seek to aggregate the trade to realize pricing discounts, lower costs and other advantages.

Item 13. Review of Accounts

Review of Accounts

Portfolios and portfolio positions are reviewed monthly by the portfolio manager and/or the Chief Investment Officer to ensure that assets are being resolved in a manner believed to maximize returns. Reviews are conducted to monitor portfolio performance, concentration limits, duration targets and other relevant metrics and to ensure that each portfolio conforms to guidelines established by Carrington and each Client. Meetings will be held with each Client at least annually, and more frequently if requested by the Client or determined necessary by Carrington.

Reports to Fund Investors

Fund investors will receive monthly unaudited reports and audited reports on no less than an annual basis either via electronic mail or secure website. Such performance updates will be based on an estimated value of the applicable Fund and the assets of the Fund as computed by Carrington or a third party. The monthly reports will contain evaluations of the portfolio and general economic conditions which, in the opinion of Carrington, impact the portfolio. All reports will be distributed via electronic mail or secure website. Annual reports will also be distributed via electronic mail or secure website.

Reports to Separately Managed Accounts

Separately Managed Accounts will receive reports monthly that will include evaluation of portfolio activity and balances as well as general economic conditions which Carrington believes have impacted the portfolio or may impact the portfolio in the future.

Reports to Financial Institutions

Where applicable, Financial Institutions will receive periodic reports that will include evaluation of portfolio activity and balances as well as general economic conditions which Carrington believes have impacted the portfolio or may impact the portfolio in the future.

Item 14. Client Referrals and Other Compensation

Carrington may enter into compensation arrangements with third party solicitors for new advisory business. Any solicitation arrangements will comply with Rule 206(4)-3 under the Investment Advisers Act of 1940, as amended, pursuant to which persons introducing new Client accounts to Carrington may receive a portion of the advisory fee generated by the account for a period of time that varies on a case by case basis.

Item 15. Custody

Funds

All Fund assets are held in custody by unaffiliated qualified custodians. Carrington is deemed, however, to have custody of the assets contained in the Fund portfolios, since Carrington serves as general partner of each of the Funds. Fund investors either receive quarterly account statements from the custodian; or the Funds are subject to an annual audit and these audited financial statements are distributed to each Fund investor.

Separately Managed Accounts

Carrington does not maintain custody of funds and securities contained in the Separately Managed Account Portfolios.

Financial Institutions

Carrington does not maintain custody of funds or securities on behalf of Financial Institution accounts.

Item 16. Investment Discretion

Funds

Carrington provides discretionary investment advisory services to the Funds. Carrington may make investment decisions, without consultation with the Fund or Fund investors, regarding the sourcing of assets, the analysis and valuation of such assets, determining the appropriate price for such assets, the negotiating and executing the acquisition of such assets, the disposition strategy or strategies with regard to such assets, the structure of the investment vehicle or securitization trust for such investment or the broker-dealers (if any) with which orders are placed for execution and (as applicable) the commission rates at which securities transactions are effected.

Separately Managed Accounts

Carrington provides non-discretionary investment advisory services to the Separately Managed Accounts. The selection of the residential mortgage and real estate assets acquired and price of such acquisition is ultimately determined by the holder of such Separately Managed Account. Carrington's advisory services are limited to sourcing and analyzing residential mortgage and real estate assets, structuring the investment vehicle or securitization trust based on guidelines and objectives of such Separately Managed Account, and in the execution of the acquisition, resolution and disposition of such residential mortgage and real estate assets.

Financial Institutions

Carrington provides non-discretionary investment advisory services to Financial Institutions. The selection of the residential mortgage and real estate assets acquired and price of such acquisition is ultimately determined by the Financial Institution. Carrington's advisory services are limited to sourcing and analyzing residential mortgage and real estate assets, and in the execution of the acquisition, resolution and disposition of such residential mortgage and real estate assets.

Item 17. Voting Client Securities

Carrington has voting authority and responsibility with respect to securities held by the Clients. In addition to proxy solicitations in connection with equity securities of traditional operating companies, proxy voting is also deemed to include any consent requested in matters such as bankruptcy or insolvency, covenant waivers in connection with debt, approvals regarding the restructuring of debt and other rights and remedies with respect to securities.

In voting proxies, Carrington is guided by general fiduciary principles. Carrington votes proxies in the manner it believes is consistent with efforts to achieve a Client's stated investment objectives, including maximizing the value of the Client's portfolio.

Carrington's general policy is to vote in accordance with the recommendation of an issuer's management on routine and administrative matters, unless Carrington has a particular reason to vote to the contrary. This general policy is not a predetermination, however, to vote in favor of the issuer's management, as Carrington will review all client proxies in accordance with the general fiduciary principles noted above. With respect to non-recurring or extraordinary matters, Carrington will vote on a case-by-case basis in accordance with the goals of achieving a Client's stated objectives. Carrington, at times, may determine that refraining from voting a proxy is in the Client's best interest, such as when Carrington's analysis of a particular proxy indicates that the cost of voting the proxy may exceed the expected benefit to the Client.

In certain situations, a Client may provide Carrington with a statement of proxy voting policy or guidelines. In these situations, Carrington will seek to comply with such policy or guidelines to the extent that it would not be inconsistent with applicable regulation or Carrington's fiduciary responsibilities.

Carrington follows procedures designed to identify conflicts or potential conflicts that could arise between its own interests and those of its Clients. If it is determined that any such conflict or potential conflict is not material, Carrington may vote proxies notwithstanding the existence of the conflict. If it is determined, however, that a conflict of interest or potential conflict of interest is material, one or more methods may be used to resolve the conflict, including (a) disclosing the conflict to the Client and obtaining its consent before voting, (b) engaging a third party to recommend a vote with respect to the proxy or (c) such other method as is deemed appropriate under the circumstances.

Clients and Fund investors may request a copy of Carrington's Proxy Voting Policy and Procedures, as well as applicable proxy voting records, by contacting Carrington.

Item 18. Financial Information

Carrington has never filed for bankruptcy and is not aware of any financial condition that is reasonably likely to impair its ability to meet contractual commitments to its Clients.